

Legal Organization Definitions

Individual/Sole Proprietor

A sole proprietorship is an unincorporated business that is owned and controlled by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from you, the owner. Its liabilities are your personal liabilities and you undertake the risks of the business for all assets owned, whether used in the business or personally owned. You include the income and expenses of the business on your own tax return. Per email 10-13-04 –Jane Page SD. From the IRS Publication 1635: The Sole Proprietor is an individual, husband or wife co-owner who owns a business. Updated 10-14-04.

Association

A group of persons who unite for the conduct of business or other purpose. An association is taxed in the same manner as a corporation even though it is not actually incorporated. Factors for identifying an association include whether the entity has associates, a purpose to earn profits, and to divide gains. Other factors include continuity of life, centralized management, free transferability of assets, and limited liability.

C-Corporation

In forming a corporation, prospective shareholders transfer money, property, or both, for the corporation's capital stock. A corporation can also take special deductions. The corporation must be established in compliance with the statutory requirements of the state of incorporation. The shareholders elect a board of directors which has responsibility for management and control of the corporation. C-Corporation is taxed under Subchapter C of the Internal Revenue Code. The profit of a corporation is taxed to both the corporation and to the shareholders when the profit is distributed as dividends. However, shareholders cannot deduct any loss of the corporation.

S-Corporation

Generally, an S-Corporation is exempt from federal income tax other than tax on certain capital gains and passive income. On their tax returns, the S-Corporation's shareholders include their share of the corporation's separately stated items of income, deduction, loss, and credit, and their share of non-separately stated income or loss. An S-Corporation needs to meet the statutory requirement for S-Corporation status under the Internal Revenue Code. The shareholders may elect to be taxed as an S-Corporation and may have only one class of stock, no more than 75 shareholders, and no shareholders that are nonresident aliens or non-individual (e.g., corporations, partnerships, limited liability companies) except for certain estates, trusts and certain tax exempt entities. Income and expenses of the S-Corporation “flow through” to the shareholders in proportion to their shareholdings, and profits are allocated and taxed to the shareholders at their individual tax rate.

Cooperative

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A cooperative may be organized as a corporation or as an unincorporated association.

Estate or Trust (Fiduciary)

In general, a trust is a relationship in which one person holds title to property, subject to an obligation to keep or use the property for the benefit of another. Example: estate of a decedent (a deceased person), bankruptcy estate or pooled income fund, pension plan.

Federal Government

All federal government agencies.

Other Government

All state and local governments.

General Partnership

A partnership is the relationship existing between two or more persons who join to carry on a trade or business. All partners in a general partnership share equally in the right, and responsibility, to manage the business, and each partner is responsible for all the debts and obligations of the business. Distribution of profits and losses, allocation of management responsibilities, and other issues affecting the partnership usually are defined in a written partnership agreement. Income and expenses of the partnership are reported on federal and state “information” tax returns, which are filed by the partnership. The partners are taxed on their respective share of the partnership’s profits at their individual income tax rates.

Insurance Company

A company which sells insurance (e.g., health, life).

Limited Partnership

This is a type of partnership in which the limited partners share in the partnership’s liability only up to the amount of their investment in the limited partnership. Limited partners are subject to self-employment tax only on guaranteed payments, such as salary and professional fees for services rendered. The general partner has the right and responsibility to control the limited partnership, and is responsible for the debts and obligations of the limited partnership. The limited partner, in exchange for limited liability, is usually not involved in the day-to-day management and control of the business.

Limited Liability Partnership

In limited liability partnerships (LLP), the personal assets of the partners are shielded against liabilities incurred by the partnership in tort or contract situations. This is different from a non-LLP general partnership, in which partners may be personally liable up to an unlimited extent for the debts and obligations of the partnership. A general partnership may register as a limited liability partnership (LLP) by filing a limited liability partnership registration.

Limited Liability Company

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Limited Liability Companies (LLC) are similar to a corporation. Owners have limited personal liability for the debts and actions of the LLC. LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation. Owners of an LLC are called members. Most states do not restrict ownership; members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit "single member" LLCs, those having only one owner.

Nonprofit /Nonprofit Organization

Organizations that have filed as a nonprofit to be tax exempt.

NOTE: This does not include nonprofit corporations.

Nonprofit Corporation

Is formed for a purpose not involving pecuniary gain to its members (other than members that are nonprofit organization or governmental units) and pays non dividends or other pecuniary remuneration, directly or indirectly, to its members as such (other than to members that are nonprofit organizations or governmental units).

Partnership/Joint Venture

A partnership is the relationship existing between two or more partners (i.e. two individuals) or entities (i.e. two corporations) who join to carry on a trade or business. Each partner contributes money, property, labor, or skill, and expects to share in the profits and losses of the business. A partnership must file an annual information return to report the income, deductions, gains, losses etc., from its operations, but it does not pay income tax. Instead, it "passes through" any profits or losses to its partners. Each partner includes his or her share of the partnership's income or loss on his or her tax return. Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners by the date Form 1065 is required to be filed, including extensions.

Real Estate Investment Trust

A trust that invests principal in real estate and mortgages and is taxed only on the income not distributed to its beneficiaries or shareholders.

Financial Institute/Bank

Any national or state, bank holding company, savings and loan, or any other corporation that does business which a bank or other financial organization would be authorized to do. A state bank must incorporate with the Secretary of State's office and the Department of Commerce. Federal savings and loans, federal savings associations and national banks do not need to register with the Secretary of State's office or with the Department of Commerce. These institutions do, however, register with the Comptroller of the Currency, a federal organization.

Ownership Indian tribe

To be defined

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Tribal unit

To be defined

Other

An organization that is not included under any of the other types of legal organizations.